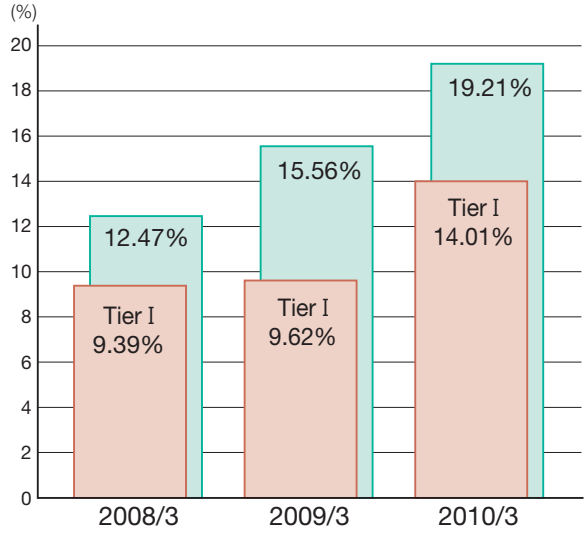
Capital Position

A Strong Capital Base Founded on the Strength of the Cooperative Membership

Capital Adequacy

The Bank considers it a major management priority to secure a sufficiently high level of capital resources in order to maintain and strengthen its financial position. It does so to ensure a stable return of profit to its members and to enhance its capabilities as the central bank for Japan's agricultural, forestry, and fishery cooperative system, contributing to those industries and the development of the cooperative banking business, and align itself with the diverse needs of its customers. As of March 31, 2010, the Bank's capital adequacy ratio was 19.21% on a consolidated basis (eight consolidated entities) and 19.26% on a non-consolidated basis. This was attributable to ordinary profit and a significant decrease in unrealized losses on securities resulting from the steady implementation of the Business Renewal Plan.

▶ Capital Adequacy Ratio (consolidated)



Enhancing the Bank's Capital Adequacy and Financial Position

Amid the unprecedented financial crisis and market turmoil, the Bank implemented a large-scale capital increase during fiscal 2008. Its aim was to ensure operational soundness and also to meet the needs of members, customers, and domestic and overseas markets appropriately, and to maintain their confidence.

In March 2009, the Bank took another step to maintain sufficient levels of capital, the key indicator of soundness for financial institutions, especially for banks with international operations, even if the turmoil in financial markets worsens in the future. With the full understanding and support of members, the Bank raised ¥1,380.5 billion in lower dividend rate stocks, a form of common stock, and increased perpetual subordinated borrowings from ¥963.7 billion to ¥1,476.0 billion. The Bank intends to improve its capital adequacy ratio in both quality and quantity, and strengthen its financial position.

In fiscal 2009, the Bank effected mergers with the Kumamoto Shinnoren (Prefectural Banking Federations of Agricultural Cooperatives), raising ¥4.5 billion in lower dividend rate stocks and extending ¥9.9 billion in perpetual subordinated borrowings.

In the years ahead, we face a trend of strengthening international capital regulations in financial institutions. In line with its Business Renewal Plan, instituted at the time of the capital increase in 2008, the center of the Bank's management agenda will henceforth be to enhance the value the Bank will provide as the central financial institution of the cooperative banking system, maintaining its capital at a sufficiently high level, and to ensure a stable returns to its members.

Strong Capital Base

The Bank is rated by the two leading credit rating agencies in the United States—Standard & Poor's and Moody's Investors Service—and has received top-tier ratings among Japanese financial institutions. One of the main factors supporting these ratings is the strong capital base afforded by the membership of the cooperative system.

While major commercial banks in Japan have received injections of public funds to restore the soundness of financial system and support them to enhance the capability for credit extension, the Bank has yet to apply for such an injection of public funds, in viewing the level of capital adequacy of the Bank.

Methods of Capital Raising

The Bank's paid-in capital is funded from the following sources.

	Common Stocks		Preferred Stocks
Investors	Members, as stipulated by the Norinchukin Bank Law		No restrictions
Voting rights	Yes		No
Par value / Issue price	¥100 / Issued at par value		¥100 / Issued at market value
Dividends	Dividend rates are approved by the Council of Delegates. Dividends are paid after the payment of dividends on preferred stocks. When dividends are paid on common stocks, participatory dividends are paid to holders of preferred stocks.	For lower dividend rate stocks Dividend rates are approved by the Council of Delegates. The priority of dividends is the same as for common stocks. Under the Bank's Articles of Association, dividends on lower dividend rate stocks have a lower priority than common stocks.	Dividend rates are approved by the Council of Delegates. Dividends on preferred stocks are composed of preferred dividends and participatory dividends. The priority for participatory dividends is the same as for common stocks.

Risk Management

Approach to Risk Management

Essential components of the management of financial institutions are the generation of stable profits and the maintenance of an optimal portfolio. Management must also address various types of risk arising from changes in the business environment as well as volatilities in economic conditions and financial markets. Financial institutions must also maintain a high level of public confidence by providing reliable services and maintaining financial soundness.

The Bank's financial position has been significantly influenced by the unprecedented global financial crisis in fiscal 2008, but a substantial increase of capital in March 2009, and subsequent improvements in market conditions made it possible to achieve sufficient capital adequacy as of March 31, 2010. In keeping with the "Business Renewal Plan" instituted at the time of the capital increase in fiscal 2009, to carry out its mission of providing a stable profit return to members and as the central institution of the Japanese agricultural, forestry and fishery cooperatives, the Bank has recently reviewed its financial risk management methods and is conducting stable financial management in accordance with its basic concept of internationally diversified investment and lending, and based on the lessons learned from the financial crisis. From this perspective, it is a high priority for the Bank to make unceasing efforts to enhance its risk-management approach.

Initiatives of risk management by the Bank are stipulated in its Risk Management Policy. The policy identifies the types of risks to be managed by assessing the materiality of each risk at the operation and the basic framework for risk management, including organizational structure and methodology. In accordance with this policy, the Bank conducts risk management activities taking account of the inherent nature of each type of risk, measures the overall magnitude of these risks, making use of quantitative methods, and conducts integrated risk management by comparing the amount of risk with the Bank's financial strengths.

To implement integrated risk management, the Bank has set up the Risk Management Committee. The Committee enables the Bank's top management to discuss important issues relating to its risk management framework and capital adequacy. The Committee also ensures that the total risk amount is kept within the Bank's maximum tolerable risk. The structure also requires the integrated risk management situation (e.g. significant decisions made by the Risk Management Committee, current issues on overall risk management) to be regularly reported to the Board of Directors. The Bank has also established a number of committees according to the types of risk, i.e. the Market Portfolio Management Committee (market risk, liquidity risk), the Credit Committee, the Credit Portfolio Management Committee, the Cooperative Finance Committee (credit risk), and the Operational Risk Management Committee (operational risk), to enable the top management to discuss and decide the measures required for controlling risks that arise in the execution of management strategy and business policies within an acceptable level. In line with the control described above, applying various risk management frameworks, including economic capital management (please refer to P. 43) determined by the Risk Management Committee, the Bank places high priority on ensuring the safety and soundness of portfolio management and financial management, by cautiously watching the balance between return, capital, and risk amid the market fluctuations and the harsh economic and financial environment surrounding the Bank.

The Bank has set up a number of divisions to manage individual types of risks, as well as a division responsible for overall risk management. The roles and responsibilities of those divisions are clearly defined in the Bank's policy. The Bank also ensures the maintenance of appropriate internal controls among those divisions.

Complying with Basel II

Basel II (the new capital adequacy regulations), which went into effect in Japan in fiscal 2006, requires banks to comply with its three pillars. Pillar I is the introduction of a risk sensitive computational formula for capital adequacy. Pillar II is the financial institution's internal capital adequacy assessment process, consistent with its risk profile, followed by supervisory review. Pillar III is the proactive disclosure to secure the proper evaluation of the effectiveness of Pillar I and Pillar II by the market. The Bank is making constant efforts to address issues relating to these three pillars.

In the wake of the financial crisis stemming from the sub-prime loan problem in the United States, the Basel Committee on Banking Supervision (Basel Committee) is planning to partially implement the Basel II framework which is to be enhanced in fiscal 2010, and to review new capital adequacy and liquidity regulations with the goal of implementing them from 2012 and beyond. Therefore, the Bank will respond appropriately to any new regulatory requirements.

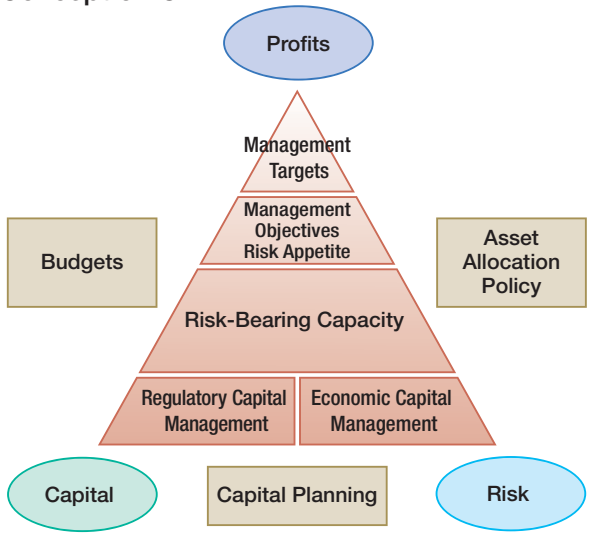
With regard to credit risk management, the Bank has worked to enhance its credit risk management infrastructure. The Bank has reinforced its existing internal rating framework (system in which borrowers are rated both on the basis of a quantitative assessment of financial data making use of a statistical model, and on the basis of qualitative analysis). The Bank also implements a method of measuring credit risk by estimating the probability of default for borrowers in each credit rank, based on historical data of actual defaults. For operational risk (risk arising from operating activities, such as clerical errors, system defects as well as lawsuits), the Bank has strengthened its comprehensive management systems through Risk and Control Self-Assessment (RCSA) exercises. These exercises identify the risk inherent in various business processes and assess the effectiveness of internal controls. The Bank adopted the "Foundation Internal Ratings-Based Approach (F-IRB)" for credit risk and "The Standardized Approach (TSA)" for operational risk, pursuant to the Norinchukin Bank Law Notification regarding Basel II.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank implements the Internal Capital Adequacy Assessment Process (ICAAP), an assessment process based on "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" of the Basel Committee, to manage profits, capital, and risk in a consistent and efficient manner. Under the ICCAP, the Bank comprehensively manages its capital resources, from both capital (the numerator of the capital adequacy ratio) and risk assets (the denominator of the capital adequacy ratio) perspectives.

The ICAAP is a process to demonstrate the appropriateness of the risk management practice by addressing the risks that arise while achieving business objectives and maintaining the sufficient levels of internal capital to cover these risks. The purpose of ICAAP is to provide its various stakeholders with stronger confidence in the soundness of the Bank's operations.

Concept of ICAAP



Moreover, the Bank's ICAAP does not simply control capital and risk. ,but also, it goes beyond this framework and intends to simultaneously meet two distinct management goals: capital adequacy and profitability. The ICAAP recognizes capital adequacy as a "triangular" relationship among profit, capital and risk with consistency and good balance. This framework constitutes the core concept of the Bank's ICAAP.

Specifically, the ICAAP ascertains the consistency between "Risk Appetite" and "Risk-Bearing Capacity," both presented quantitatively as the amounts of risk and capital respectively. This process is achieved through two different types of frameworks to maintain capital adequacy: regulatory capital management and economic capital management.

• Risk Appetite

In implementing the Bank's strategies for attaining its management goals, Risk Appetite reflects specific views on risk-taking, and defines what types of risk and the magnitude of risk the Bank is willing to accept. The level of risk to be controlled is determined by various related indicators and from both a qualitative and a quantitative perspective. In other words, the setting of Risk Appetite interrelates management objectives (management strategy), risk, and capital within a single and consistent framework.

• Setting Risk-Bearing Capacity

The Bank stipulates the scope of the material risks and the measurement method (quantitative measurement) of risks it comprehensively manages, such as market risk, credit risk, and operational risk. The Bank then defines Risk-Bearing Capacity as "maximum tolerable risk," and manages the level of risk within its Risk-Bearing Capacity. When setting Risk-Bearing Capacity, the Bank clarifies each component of capital with the types of risk to be covered.

• Verification of Consistency between Risk and Risk-Bearing Capacity

The Bank established the checkpoint system in order to verify that the volume of risk taken, based on Risk Appetite, does not and absolutely will not exceed the Risk-Bearing Capacity.

The checkpoint provides a framework to ensure that the capital adequacy is maintained above a predetermined level regardless of volatilities due to various factors by monitoring key factors that causes fluctuations and by discussing action plans at an early stage. A specific checkpoint is determined according to the Bank's risk profiles. Under this mechanism, each checkpoint is determined from two perspectives, namely regulatory capital management and economic capital management, and appropriate levels of capital are maintained by closely monitoring two major variables: the level of unrealized gains and losses on securities, and degree of risk exposure.

• Implementation of Stress Tests

The stress tests are basically performed in conjunction with the fiscal year ICAAP implementation. By preparing very harsh stress scenarios that factor in specific timelines and the ripple effects of risks covering the Bank's entire portfolio, the Bank verifies the impact of those stresses on capital adequacy. Based on that, the Bank implements the Internal Capital Adequacy Assessment Process (ICAAP), which includes a review of countermeasures envisioned when stresses arise. In addition, the stress analysis is separately performed in conjunction with semi-annual budget planning. The impact of major changes in market risks and credit risks that are assumed in day-to-day portfolio management is verified by both the regulatory capital adequacy ratio and economic capital management and is used in decision making.

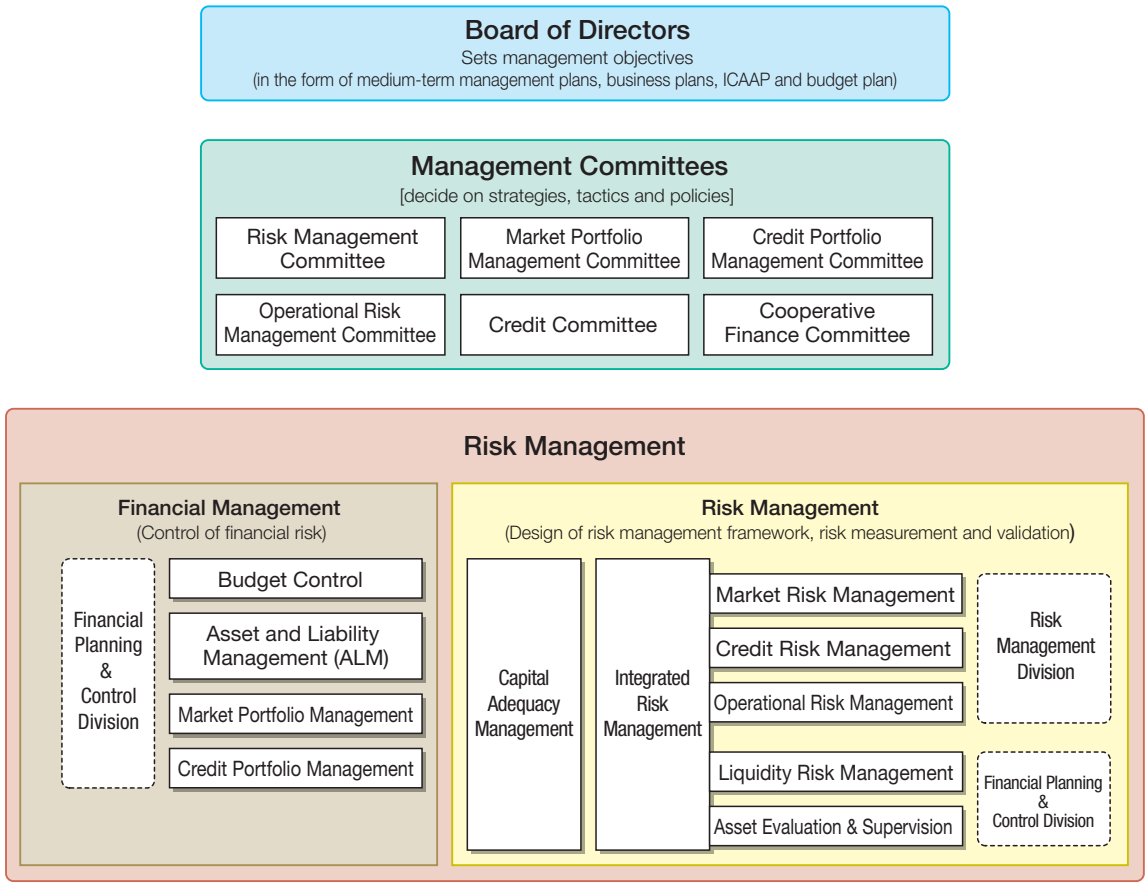
Integrated Risk Management

The Bank has drawn up its Risk Management Policy, and stipulates a core risk management framework that quantifies and manages risk comprehensively in comparison with capital, which represents the Bank's financial strength. The Bank has further developed this framework in the ICAAP (Internal Capital Adequacy Assessment Process), focusing on capital adequacy, as described above. The Bank manages overall risk on a comprehensive basis, in addition to the risk covered by regulatory capital management. The core function within the risk management process is economic capital management.

Under this economic capital management policy, the risks to be covered by capital are measured, and the economic capital is applied in advance. The amount of risk is controlled in order not to exceed the applied economic capital by monitoring the changes of amount of risk caused by market fluctuations and additional risk taking in timely manner during a fiscal year. The Bank manages economic capital both on a consolidated and non-consolidated basis.

In economic capital management, the capital measure normally used is Tier I capital in the same way as in the regulatory capital calculation. Tier II capital is viewed as a buffer for risk in stress situations. The Bank categorizes the types of risk to be controlled into

Risk Management System



market risk, credit risk and operational risk. To maximize the benefit of the globally diversified lending and investment concept, the Bank manages the economic capital on an aggregate basis instead of allocating to each asset class or to each business segment, as the Bank believes such an approach should fit in the business profile of the Bank. In addition, the applied capital and the economic capital management framework are determined by the Board of Directors, while its middle sections are responsible for monitoring the fluctuations in capital levels and the amount of risk during each fiscal year. Those results are reported to management on a regular basis.

Market risk is measured by the Value-at-Risk (VaR) method, using a historical simulation model, with a 99.50% confidence interval and one-year holding period. Credit risk is measured through the Value-at-Risk (VaR) method, using a Monte Carlo simulation model, with a 99.50% confidence interval and rating transition within a one-year holding period. Credit risk capital is defined as the credit risk amount measured by the method described above, deducting the expected losses. Operational risk is measured by The Standardized Approach (TSA), in line with the regulatory capital requirement. This amount is adopted as the operational risk capital.

Through these initiatives, the Bank manages risk via a comprehensive perspective, and plans to further refine its risk management framework going forward.

• Integrated Risk Management Consistent with Financial Management

The Bank's integrated risk management framework is conducted consistently with its financial management framework to maintain a balance between a sound financial position and adequate profitability. The Bank has specifically established the market risk management infrastructure to enable it to promptly respond to changes in the conditions of financial markets. The Bank conducts a wide range of analysis from various perspectives, including static and dynamic interest rate sensitivity analyses toward the impact on profit/loss, and price sensitivity analysis of its assets for impact on the interest rate changes. In addition, as a part of asset and liability management (ALM), the Bank measures the risk volume, taking account of price volatilities of bonds and stocks as well as volatilities in foreign currency exchange rates, and conducts scenario simulations under various stress assumptions. Through the analysis described above, the Bank strives for flexible financial management by understanding the impact of market volatilities on the value of its assets.

Credit Risk Management

Credit risk is the possibility of a loss arising from a credit event, such as a deterioration in the financial condition of a borrower, that causes an asset (including off-balance sheet items) to lose value or to be significantly impaired.

For the Bank, transactions involving credit risk are one of the most important sources of earnings from a strategic point of view. The Bank comprehensively manages credit risk on an entire credit portfolio basis as well as individual credit basis for whole credit risk assets. In this way, the Bank appropriately manages the amount of credit risk to secure a steady flow of earnings.

• Credit Risk Management Framework

The Bank's credit risk management framework comprises four committees that are managed by the directors and general managers involved in risk management. These committees determine the Bank's credit risk management framework as well as its credit investment policy. Front office sections execute loan transactions and credit investments in accordance with the credit policy and within the credit limits approved by the committees. Middle office sections, which are segregated from the front office sections, monitor changes in the credit risk portfolio and report them to

the committees. That feedback is then used for upgrading the risk management framework and for future credit investment planning. Each of the four committees has a specific role assigned by the management.

The Risk Management Committee is responsible for the deliberation of the basic infrastructure for overall credit risk management, including the Bank's internal rating system, the self-assessment system, and the economic capital management system. The Credit Committee functions primarily to consider a number of credit ceiling systems which are employed to manage concentration risk.

The Credit Portfolio Management Committee and the Cooperative Finance Committee discuss basics strategies and policies regarding control of the credit risk infrastructure, and make decisions on business strategy for material transactions or transactions with large amounts.

Middle sections perform monitoring including the condition of the credit risk portfolio. In addition, the status of credit risk measurement (such as market overview; significant decision made by the Credit Committee, Credit Portfolio Management Committee, and Cooperative Finance Committee; overview of the credit risk portfolio; current approach to risk management) is regularly reported to the Board of Directors.

• Credit Risk Analysis Framework

As a result of the Bank's continuing efforts to further upgrade its credit risk analysis capabilities, the Bank performs highly specialized analysis for all outstanding credit according to borrower type, such as a cooperatives, corporates, public entities, financial institutions, overseas borrowers, and securitized products. Credit analyses on corporates and public entities are assigned according to sectors in order to utilize accumulated institutional knowledge on analysis for each industry. That framework is designed to take advantage of a sector-specialized senior credit administrator system. A senior credit administrator specialized in a certain sector reviews each debtor and its business conditions individually and compares it with other companies in the same industry utilizing its credit and sector research function. In analyses of loans to overseas borrowers the Bank reviews country risk, an inherently different category of risk from domestic corporations, by looking into economic and political conditions and makes effective use of the country ceiling system. Together with the region-specialized senior credit administrator system or evaluation of credit applications, the credit risk on overseas loans is appropriately managed. In addition, securitized products such as those backed by cash flows generated from residential mortgage, corporate lending, and commercial real estate are subjected to due diligence and credit analysis according to the risk profile of each product. In addition, in order to monitor and identify the risk, the Bank performs ongoing monitoring and review of performance indicators of underlying assets of these investment products.

Through this credit analysis system, the Bank maintains high-level credit risk management based on stringent analytical standards, proprietary methods of financial and cash flow analysis, and monitoring reviews after deals have taken place.

• The Bank's Internal Rating Framework

Outline of the Internal Rating Framework and Special Features

In addition to the Bank's traditional lending activities as a financial institution specialized in the agricultural, forestry, and fisheries industries, the Bank adopts a management strategy of diversified investment and pursues an optimized investment portfolio by diversifying investment assets according to product profile, region or industry. Accordingly, the Bank considers it crucial to manage credit risk exposure from an integrated perspective, as well as to manage regulatory capital by measuring the amount of credit risk, ensure financial soundness, and maintain profitability.

The Bank's internal rating framework is designed to evaluate and measure the Bank's credit risk portfolio consistently, and is considered a crucial tool for

the integrated management of credit risk. It plays an important role in daily credit risk management and portfolio management, particularly in economic capital management.

Structure and Application of the Internal Rating Framework

The Bank's internal rating framework comprises three components: the Borrower Rating System, the Loan Recovery Rating System, and the Retail Exposure Internal Rating System.

The Borrower Rating System is designed to evaluate the exposure grades of corporate borrowers. The Bank has 15 borrower grades: 10 borrower grades for non-defaulted borrowers and 5 for defaulted borrowers. Each borrower grade defines the level of credit risk for a borrower.

In principle, ratings are evaluated and assigned using a combination of quantitative and qualitative factors. For certain assets subject to risk-weighted asset calculation for the investment fund, the Bank assigns its internal ratings by using external ratings as the primary factor, those of Standard & Poor's (S&P) and Moody's Investors Service (Moody's). The Bank maps clearly its internal grades to the scale used by credit rating agencies (e.g., internal grade "1-1" corresponds to the external grade "AAA" and "Aaa"). This mapping is based on comparisons of grades and default probabilities on the same borrowers between internal ratings and credit rating agencies' ratings.

The Loan Recovery Rating System is used to grade the recovery of collateral for corporate exposure. Ratings are assigned according to the expected recovery ratios, and are determined from the assessment of factors that may have an impact on the recoverability, such as loan security (collateral or guarantees), seniority (senior or subordinate), and other factors affecting recovery for defaulted exposures.

The Retail Exposure Internal Rating System estimates Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) on an exposure pool basis, and allocates exposure according to the type of pool.

As the Bank adopts the F-IRB approach, the internal rating system is the foundation of the calculation of the capital adequacy ratio for regulatory capital, the primary indicator for the financial soundness of a bank. The Bank applies the same PD figures calculated for capital adequacy ratio of regulatory capital to measure credit risk deriving from credit exposure to maintain consistency between the internal rating systems. In addition, the Bank differentiates interest rates according to the internal ratings and collateral provided, in order to maintain a sufficient level of returns in line with the degree of credit risk.

Management of the Internal Rating Framework and Validation Procedures

The internal rating system is managed by dedicated units of the Bank that are segregated from front section. The systems are designed to fit into the profile of the Bank's credit portfolio and implemented according to policies and procedures stipulating the objectives of the internal rating system, criteria for each rating grade, evaluation methods and mapping of ratings, approval authority and validation of rating system. Validation of the internal rating system and monitoring of it to ensure appropriate implementation is performed on a regular basis.

In addition, the Internal Audit Division periodically oversees and audits the Bank's credit risk management, including the appropriateness of estimated parameters and historical default rates, compliance with minimum requirements for the IRB Approach, and reports to the Board of Directors.

• Self-Assessments, Write-Offs, and Provisions to Reserves Based on Internal Ratings Framework

The Bank conducts self-assessment exercises on a quarterly basis at the end of March, June, September, and December.

The self-assessment process initially classifies

Relationship among Internal Rating, Self-Assessment, and Exposure Requiring Mandatory Disclosure under the Financial Revitalization Law

Internal rating	Self-Assessments			Exposure requiring mandatory disclosure under the Financial Revitalization Law
	Debtor classification	Asset category	Definition of asset category	
1-1 4 1-2 5 2 6 3 7	Standard	Category I	Debtors who maintain favorable operating conditions and have no particular financial difficulties. Internal ratings 1-1 to 4 are equivalent to investment grade of credit rating agencies.	Standard
8-1 8-2	Substandard	II	Debtors requiring close monitoring going forward	Special attention
8-3	Other substandard debtors			
8-4	Debtors under requirement of control			
9	Doubtful	III	Debtors who are highly likely to fall into bankruptcy	Doubtful
10-1	Debtors in default	IV	Debtor who have effectively fallen into bankruptcy, although no facts have emerged to indicate legal or formal bankruptcy	Bankrupt or de facto bankrupt
10-2	Debtors in bankruptcy		Debtors who are legally and formally bankrupt	

The Norinchukin Bank's Debtor Classification and Reserves for Possible Loan Losses (As of March 31, 2010) (On a Non-Consolidated Basis)

(Billions of Yen)

Self-Assessments					Reserves for possible loan losses	Claims disclosed under the Financial Revitalization Law	Risk-managed loans (Note 2)
Debtor classification		Category I	Category II	Category III	Category IV			
Debtors in bankruptcy Debtors in default		Portion deemed to be recoverable through collateral or guarantees		Provisions are made to cover the entire amount	Full amount written off or provisions made	Specific reserve for possible loan losses 213.6	Bankrupt or De facto bankrupt 6.7	Loans to borrowers under bankruptcy proceedings 6.2
Doubtful debtors		Portion deemed to be recoverable through collateral or guarantees		Provision ratio: 67.2%			Doubtful 214.0	Delinquent loans 212.7
Substandard debtors	Special attention	Provision ratio of the uncovered portion: 23.9%				General reserve for possible loan losses 82.1 (Note 1)	Special attention 67.7	Loans with principal or interest payments three months or more in arrears —
	(Claims on debtors under requirement of control)	Claims on substandard debtors other than "Special Attention"					Standard loans 13,128.7	Restructured loans 67.7
	Other substandard debtors							
Standard debtors								

Notes: 1. The expected default ratios for computing the provisions to the general reserve for possible loan losses are 0.39% for standard debtors, 4.49% for substandard debtors (excluding claims under requirement of control), and 10.95% for claims under requirement of control.
2. The difference between the total of claims disclosed under the Financial Revitalization Law and the total of risk-managed loans is the inclusion of claims other than loans.
3. In addition, as of March 31, 2010, Money Held in Trust includes delinquent loans of ¥3.2 billion and doubtful of ¥0 billion, bankrupt or de facto bankrupt of ¥3.2 billion, respectively.

obligors in line with the Bank's internal ratings. There are five classifications: standard, substandard, doubtful, debtors in default, and debtors in bankruptcy.

Subsequently, within each of these categories, individual credit facilities are classified into four categories (I, II, III, and IV) according to expected recoverability.

• Criteria for Write-Offs and Provisions to Reserves

Write-offs and provisions to reserves for possible loan losses are made in accordance with the criteria set by the Bank for each classification of obligors determined for self-assessment exercises. For exposure to standard debtors and substandard debtors, the Bank makes provisions to the general reserve for possible loan losses for each category of borrowers based on the expected loss ratio, which is calculated from historical loss data, including losses from defaults. For debtors under control requirements with substantial exposure, provisions to specific loan loss reserves

for possible loan losses are calculated by the discounted cash flow (DCF) method on an individual basis. For exposure to doubtful debtors or lower, provisions to specific reserves for possible loan losses are made, or write-offs are performed, for the amount not recovered by collateral or guarantee to the exposure classified as Category III, and the amount deemed necessary to the exposure classified as Category IV.

Criteria for Write-Offs and Reserves for Possible Loan Losses

Debtor classification		Criteria for write-offs and reserves for possible loan losses	Provision ratio as of March 31, 2010
Standard debtors		Provisions are made as the general reserve for possible loan losses multiplying the total credit exposure by the expected loss ratio based on the historical default ratio.	0.39%
Substandard debtors	Other substandard debtors	Initially, categorize debtors into two groups: "Debtors under requirement of control" or "Other substandard debtors," in accordance with credit quality of debtors. Debtors in the latter group are further classified into sub-categories. Applies Discount Cash Flow (DCF) method for a debtors with large exposure if classified as "Debtors under requirement of control." Provisions are made as general loan-loss provisions, multiplying the total credit exposure by the expected loss ratio based on the historical loss ratio for each category of borrowers.	4.49%
	Debtors under requirement of control		10.95% (Excluding borrowers the DCF method is applied)
Doubtful debtors		Provisions are made as specific reserve for possible loan losses the necessary amount estimated against the amount classified as Category III (amount not likely to be recovered from collateral or guarantee) on an individual borrower basis.	67.23% of the unrecoverable portion
Debtors in default		Provisions are made as specific reserve for possible loan losses on an individual borrower basis for the entire amount classified as Category III. Write-offs are performed on an individual borrower basis for the amount classified as Category IV (the amount estimated as uncollectible or unrecoverable), regardless of treatment under criteria in tax law.	The full amount of the unrecoverable portion is written off or provisioned
Debtors in bankruptcy			

Credit Costs in Fiscal 2009 (On a Non-consolidated Basis)

	Billions of Yen
Loan write-offs	¥ 12
Provision to general reserve for possible loan losses	24
Provisions to specific reserve for possible loan losses	114
Provision to reserve for specified overseas debts	—
Other	1
Total credit costs	¥152

• Credit Overconcentration Risk

Credit overconcentration risk is defined as the risk of incurring unexpected huge losses triggered by simultaneous credit event such as event of default, due to overconcentration of credit exposure to specific groups of borrowers, industries or regions. To mitigate such risk, the Bank has installed credit ceiling systems according to the profile of credit exposures, namely, Country Ceilings (for credit exposure to individual countries or regions), Corporate Ceilings (for credit exposure to corporates), and Bank Ceilings (for credit exposure to financial institutions). Total credit exposure for each ceiling category is monitored on a regularly basis and controlled to avoid any overconcentration of credit exposure.

Regarding the corporate ceiling, maximum lending limits are set for each borrower, based on the rankings assigned by the internal rating system. Limits are set and lending managed not only on an individual obligor basis but also on a corporate group basis. The Bank Ceiling is precisely managed and credit limits are set for each type of transaction. Regular reviews are also performed on credit exposure of each industry.

• Measuring Credit Risk

The Bank measures the amount of credit risk using statistical based methods, and applies it to economic capital management.

Methods for Measuring Credit Risk

The Bank uses the internal model for credit risk (the Monte Carlo Method) in estimating credit risk, and measures credit risk on a monthly basis. The scope of measurement includes loans, guarantees, foreign exchange, and securities (e.g. corporate bonds), as well as off-balance-sheet transactions (e.g. swaps). The Bank measures the amount of credit risk by defining it as the potential impairment amounts incurred from credit exposure.

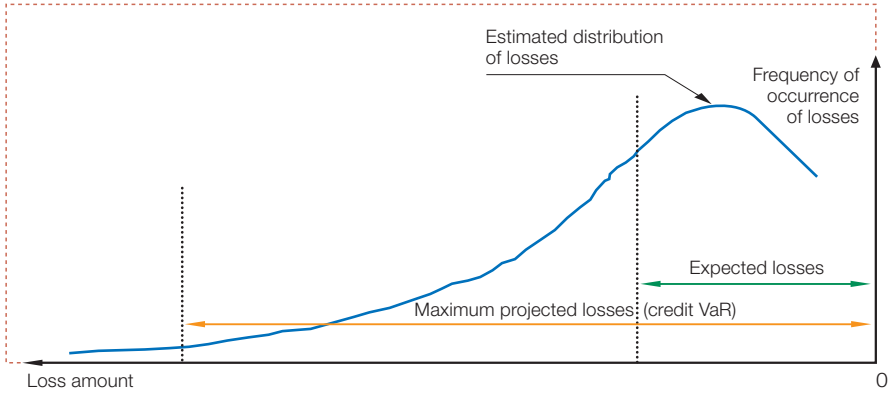
The method of measuring credit risk involves performing simulations on tens of thousands of scenarios using statistical models for the credit portfolio. Such exercise intends to simulate adverse changes of asset value due to rating changes of obligors or invested products, and losses incurred from defaults. Key parameters for the simulation include probability of defaults (PD) for each rating category, rating transition probability (likelihood for changes of one rating category to another rating category), and correlation among credit exposures. Using the simulation results, the Bank estimates the distribution of potential losses on the Bank's credit portfolio over the next year.

The economic capital of the Bank is managed by calculating two figures for the amount of credit risk, namely the "Expected Loss (EL)," the average indicator of losses on simulated scenarios, and the "Maximum Projected Loss," defined as the potential losses in the worst case scenario in the simulation. Utilizing EL and UL, the Bank monitors the utilization of allocated risk capital against the amount of risk under economic capital management.

Market Risk Management

The Bank deems market risk, such as interest risk and equity risk, to be one of the most significant risk factors affecting the Bank's earnings base, along with credit risk. Through active and appropriate risk-taking supported by a robust risk management framework, the Bank aims to retain a stable level of profit by constructing a sound and profitable market portfolio that balances profit, capital, and risk. The Bank's investment principle is to maintain a good balance of risk in its globally diversified investment portfolio in viewing the amount of aggregated market risk, the risk-return profile of each asset class, and the correlation among asset classes. Asset allocation is decided after considering the risk balance described above and other crucial factors, such as the financial position of the Bank and the market environment. To ensure the effectiveness of market risk management through the execution process of investments, the Bank ensures the segregation of duties among divisions in charge

Illustration of Credit Risk Measurement Model



The loss distribution of the Bank's credit portfolio is estimated based on the Bank's credit risk measurement model. Credit risk parameters, including expected loss and Credit Value-at-Risk (VaR) are calculated using this model.

of decision-making (planning) for allocation policy, execution of individual transactions, and monitoring of risk positions. Specifically, the Risk Management Committee is responsible for and discusses overall risk management, the Market Portfolio Management Committee sets market portfolio allocation policy, the front sections execute the transactions in accordance with allocation policy, and the middle sections conduct monitoring. Matters relevant to the market risk portfolio management activity (such as market conditions, major investment decisions made by the Market Portfolio Management Committee, condition of the market portfolio, and views on near-term market portfolio management) are reported to the Board of Directors on a regular basis. Going forward, the Bank will continue to upgrade its market risk management infrastructure by implementing various measures such as increasing the number of staff in charge, enhancing technical elements, such as the information technology infrastructure, and refining risk measurement techniques.

• Market Portfolio Management

The fundamental element of the Bank's market risk management is management of allocated capital under economic capital framework. The key objectives of risk management of the market portfolio are to construct an optimal market portfolio through active adjustment of the risk balance among asset classes according to the economic and financial conditions, in pursuit of efficient use of the allocated economic capital, and to manage the risk balance and the level of earnings of the market portfolio in line with the financial position of the Bank. Specifically, the risk balance of the market portfolio is managed by analyzing and understanding the situation of the market portfolio based on market risk measured by the middle sections, including the amount of aggregate risk, risk indicators, such as Value at Risk (VaR) and Basis Point Value, and correlation among asset classes. The Bank also analyzes and takes into account its financial position, based on the outlook for economic and financial conditions supported by research into macro-economic factors and the financial markets, and simulations of earnings, unrealized gains and losses of the portfolio, and the capital adequacy ratio. In principle, market risk measurement covers all financial assets and liabilities in the Bank's portfolio, and employs the Internal Model (historical simulation method) for the calculation of VaR.

The basic framework of market risk management is described in the following section.

Decision Making

Material decisions on market investments are made at the Board level. The Market Portfolio Management Committee—composed of relevant Board members as well as the general managers in charge of market portfolio management—examines, discusses, and makes decisions concerning specific policies related to market investments.

Decision-making for market investment is carried out after examining the investment environment, including the financial markets and the economic outlook, the current position of the securities portfolio, and the asset and liability management (ALM) situation of the Bank. The Market Portfolio Management Committee holds meetings on a weekly basis, as well as when needed, in a flexible manner, to enable prompt responses to changes in market conditions.

In addition, to facilitate close communication regarding the market environment on a regular basis, relevant board members and the general managers in charge of the market portfolio hold meetings to share information and awareness on a weekly basis to make both timely and appropriate decision.

Execution

Based on the investment decisions made by the Market Portfolio Management Committee, front office sections execute securities transactions and risk hedging. Front office sections are not only responsible for executing securities transactions and risk hedging but also monitoring market conditions closely and proposing

new investment strategies. Additionally, they also make other recommendations to the Market Portfolio Management Committee.

Monitoring

The term "monitoring functions" refers to checking whether the execution of transactions made by front office sections is compliant with the investment decisions approved by the Market Portfolio Management Committee, and measuring the amount of risk in the Bank's investment portfolio. Risk measurements include risk calculation for economic capital management and measurements using various risk indicators to maintain a good risk balance among asset classes. Middle office sections independent of front sections are responsible for those risk measurements and regularly report to the Board of Directors about the results of monitoring, mainly conducted on a daily basis. Monitoring results reported to the Board are used to analyze the current situation of the market portfolio and as a data source for discussing the investment strategies of the Bank in the near future by the Market Portfolio Management Committee.

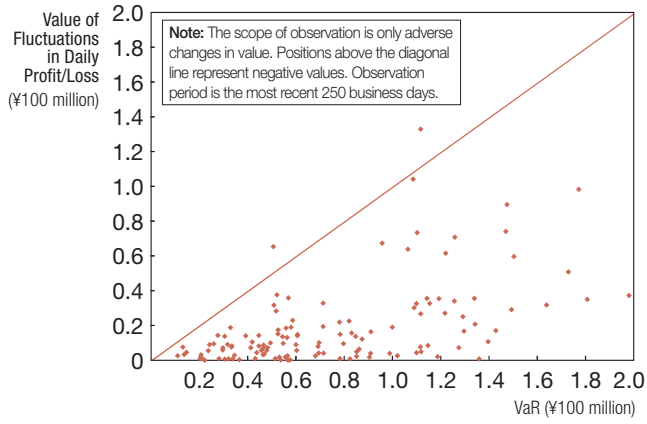
• Trading Operations

The Bank's trading operations are conducted to generate profits from short-term market fluctuations. The Bank maintains an organizational separation between front office sections, in charge of executing trading activities, and units undertaking other types of transactions. The front sections in charge of trading activities aim to achieve profit targets within the approved position and loss limits determined from a risk-return perspective.

The risk involved in trading operations is managed under an integrated risk management framework and within the market risk management framework with economic capital management as a critical element of the framework. From a risk management perspective, the front office sections executing trades for the Trading accounts are explicitly separated from the front office sections executing trades for the Banking accounts. Targets for profits, and position and loss limits are revised semi-annually. Progress in achieving profit targets within approved limits is monitored on a daily basis.

When positions or losses exceed the approved limits, the middle office sections alert the front office sections to take appropriate action, including preparing corrective measures, reducing trading volume, or suspending trading altogether.

Results of Back Testing Performed (Trading Divisions, Interest Rate VaR (1day))



During the last 250 business days, including and ended on March 31, 2010, the adverse changes in value in daily profit and loss exceeded VaR (for a one-day holding period) twice. The Bank utilizes an internal model to calculate VaR, validated internally or by outside experts on a regular basis, and is working to incorporate cutting-edge financial and information technology into the model. Depending on results, the Bank also revises the internal model if discrepancies beyond certain level occur due to the designs of the model, based on back-testing and an analysis of the relevant factors if necessary.

Changes in Interest Rate Risk (with a one-day holding period) in the Trading Divisions

	VaR (¥100 million)
June 30, 2009	1.2
September 30, 2009	0.3
December 30, 2009	0.5
March 31, 2010	0.8

Risk Measurement Methods

The Bank measures the risk in its trading operations by adopting risk measurement techniques such as basis point value (BPV), slope point value (SPV), optional risk parameters, and value at risk (VaR) to monitor

compliance with risk limits.

The Bank uses an internally developed model for risk measurements. The model employs a variance-covariance method with a one-tailed 99% confidence interval and a 10-business day holding period, and measures VaR on a daily basis. The Bank's model is internally developed and periodically validated by both the middle office sections and the Internal Audit Division, as well as by outside experts, from the quantitative and qualitative perspectives. The Bank continues to apply cutting-edge financial and information technologies to the upgrading of its risk measurement methods.

In addition, to validate the Bank's internal model, the amount of risk calculated by the model is compared with the volatilities in actual profit and loss on a daily basis (known as back testing). When discrepancies between the model's estimates and actual results due to the designs of the model go beyond a certain level, the Bank scrutinizes the relevant model factors and revises the model if necessary.

Glossary of Terms

BPV (basis point value)
BPV refers to the changes in the value with respect to a 0.01% change in interest rates given the current position. The Bank uses total delta as the indicator of the impact of the change assuming a parallel shift in the yield curve.

SPV (slope point value)
SPV is an indicator of the impact assuming a non-parallel shift in the yield curve. It is the aggregate of the absolute value for BPV for each yield curve grid. SPV indicates the changes in value of the Bank's positions when the interest rate moves against the Bank's positions by 0.01% in each grid.

Optional Risk Parameters
Financial products such as bond options have specific risk characteristics such that the position or value of the products might change according to the changes in the base indicator level, such as interest rates and volatilities. The Bank uses delta (changes in the value of options according to the change in the level of an indicator), gamma (changes in the the positions of options according to the change in the level of an indicator) and vega (changes in the value of options according to the changes in the volatility) to evaluate the degree of correlation and sensitivity between the value of options and market indicators.

VaR (value at risk)
VaR is the maximum possible loss over a specified holding period and within a certain confidence interval. The Bank calculates VaR by setting specific holding periods and confidence intervals, and applying the appropriate measurement method to measure the risk.

The Bank also performs a series of stress tests assuming extremely volatile market situations, such as the largest interest rate changes in the last five years, on a monthly basis. The Bank also monitors whether the amount of risk in the stress tests is within the maximum tolerable loss limit and within the capital allocated on a monthly basis for trading activities.

Liquidity Risk Management

The Bank defines liquidity risk as the following: "The risk towards financial losses incurred from a difficulty in securing funds required for activities of the Bank, or from being forced to procure funds at significantly higher funding costs than normal as a result of a maturity mismatch between investment and funding procurement, or as a result of an unforeseen fund outflow from the Bank (cash flow risk)." It is also defined as: "The risk towards financial losses arising from being unable to execute transactions in the market due to significant market turmoil, or from being forced to execute transactions under significantly less favorable conditions than normal occasions (market liquidity risk)." The Bank manages liquidity risk in accordance with its Policies and Procedures for Liquidity Risk Management.

The appropriate management of cash flow risk is a prerequisite for business continuity and reliable portfolio management. Considering the characteristics of the Bank, such as its stable fund procurement structure, which is primarily centered on deposits, together with the relatively less liquid assets that it holds, and examining the funding procurement capability under stressed environments, the Bank takes steps to diversify and enhance the varieties of its funding instruments, placing emphasis on the stability of cash flows.

Cash flow management is conducted on an aggregated basis at the head office—adopting various loss-limit management methods—according to currency, funding instrument, and funding operation center. The

cash flow management plan is reviewed on a quarterly basis with the Bank's investment portfolio projection and its expected funding procurement capacity, and it is approved by the Market Portfolio Management Committee. The progress of the cash flow management plan and the result of the stress test conducted accordingly are reviewed on a monthly basis and its execution strategies are discussed on a weekly basis. This cash flow of the Bank is appropriately managed in response to circumstances by constantly monitoring market conditions.

Market liquidity risk is considered to be a crucial factor for investment decisions in order to maintain a flexible investment allocation framework that enables prompt responses to changes in market conditions. Investment strategies are also prepared through assessing the market liquidity (cash-convertibility) of each type of financial product. This market liquidity risk management framework is applied to the evaluation of stabilities on funding procurement as well. For this reason, middle office sections are regularly reviewing and analyzing the market liquidity of financial products, including the market size of each asset class and product. The results of these analyses are reported to the Risk Management Committee and the Market Portfolio Management Committee.

The operational status of liquidity risk management is also regularly reported to the Bank's Board of Directors.

Operational Risk Management

The Bank has the "Operational Risk Management Policy" which was adopted by the board of directors. Under this Policy, the Bank clearly states the definition, management framework, and basic management processes of operational risk.

• The objective of the Operational Risk Management

The objective of the operational risk management is to minimize the potential loss amounts and likelihood of operational risk events, arising from business operations which per se do not generate profits. In order to achieve this objective, the Bank allocates management resources effectively and efficiently by identifying various risks, such as processing risks, IT system risks, legal risks, and prioritizing them and handling them accordingly.

• Definition of Operational Risk

The Bank defines operational risk as the risk that arises in the course of business activities which per se do not generate profit. These risks are different from market risks, credit risks, and liquidity risks, the types of risks the Bank actively takes to generate profits.

The operational risk is further broken down to subcategories, such as processing risk, IT systems risk, legal risk, personnel risk, tangible assets risk, information security risk, business continuity risk, regulatory change risk, reputational risk.

• Organizational Structure of Operational Risk Management

The board of directors approves the basic policies and plans of operational risk management. Such policies and plans include amendment of the "Operational Risk Management Policy," and annual management plan of operational risk.

The board of directors has established the Operational Risk Management Committee. The committee consists of relevant board members and heads of relevant divisions. The Committee monitors current status of operational risk management, and promotes cross-sectional approaches among various operational risk factors and cross-divisional approaches among relevant divisions in order to enhance the effectiveness of operational risk management.

The board of directors has also established the central controlling unit of operational risk management that

is independent of business lines, as well as functional units responsible for management of each sub-category of operational risk.

In addition, an operational risk administrator is designated in each branch and division who is in charge of operational risk management in the branch or division and acts as a liaison officer between the branch or division and a functional unit of the operational risk management.

• Basic approach of Operational Risk Management

Subcategories of operational risk are classified into 3 groups and different approaches are applied to each group of operational risks.

The first group consists of processing risk, legal risk IT systems risk, personnel risk, tangible assets risk and information security risk. Management of this type of risk is mainly focused on preventive actions for risk events. It is considered that occurrences of those risk events can be prevented by implementing various controls.

The Bank employs two common tools in order to identify, assess, monitor and reduce these risks. Firstly, the Bank carries out RCSA (Risk and Control Self Assessment) on a regular basis to identify and assess risks inherent in business activities. Secondly, the Bank accumulates and analyzes the data and information on actual incidents of operational risk events.

In addition to the above, each risk category in this group has its own risk management standard designed according to its risk profile and effectiveness of internal control.

RCSA is performed by each business unit. Risks inherent in each business unit and controls that has been implemented against the risks are identified. The effectiveness of those controls and residual risks are assessed by the most knowledgeable staff in the unit.

Action plans for major vulnerable points recognized as a result of RCSA exercise are reflected in the annual management plan and properly addressed.

In accumulating actual operational risk incident information, the Bank has clear-cut reporting criteria that cover all supervisory categories stipulated by Basel II. The information and data are compiled, analyzed and reported to The Operational Risk Management Committee on a quarterly basis.

Each major incident information is fed back to RCSA to clarify vulnerability of control measures, and appropriate action plans are implemented.

The second group consists of only one risk category which is business continuity risk. Management of this type of risk is mainly focused on post-incident measures for risk events.

It is, by no means, possible to prevent occurrence of those risk events such as big earthquake or pandemic etc. In order to reduce impact of these risk events, the Bank developed business continuity plans and regularly performs business continuity drills based on the business continuity plans.

The third group include all other risks such as regulatory change risk, reputational risk etc.

Management of these risks is closely tied up with business judgment. Therefore, senior managements proactively take actions to mitigate potential risks arising from those events. At the same time, the Bank continuously monitors these risks and tries to reflect them in the management strategy in a timely manner.

As mentioned above, operational risk information and data are compiled, analyzed and reported to the Operational Risk Committee on a quarterly basis and to the board of directors on a semiannual basis. Based on the report, the board of directors reviews the Operational Risk Management Policy as and when necessary.

The overall operational risk management framework is subject to thorough internal audit on a regular basis to improve its effectiveness continuously.

The Bank adopts the Standardized Approach (TSA) for calculating operational risk capital charges, as required in Basel II.

• Processing Risk Management

The Bank defines the processing risk as the risk of

losses arising from inappropriate operation processes performed in the course of its business or inappropriate activities by executives or employees.

Specifically, it is regarded as the risk of losses due to failing to comply with the established procedure manuals, negligence, unauthorized transactions by executives or employees, or lack of procedure manuals itself and inadequate processes described in the procedure manuals.

In order to manage this risk, the Bank established the "Processing Risk Management Standards."

Specifically, based on the result of processing risk RCSA and accumulation and analysis of actual operational risk incident information, an annual processing risk management plan is established. The key components of the plan are: implementation of risk mitigation measures, enhancement of risk management framework etc. The progress of the plan is reported to The Operational Risk Management Committee on a regular basis.

In addition, various routine procedures, such as recurrence prevention procedure, self-checking and staff training, are implemented to mitigate processing risk.

When there is a major managerial environment changes e.g. mergers with Shinnoren, which should impact on business processes and operating manuals, such processes and manuals are carefully examined. The Bank identifies and addresses potential processing risks arising from those changes in advance.

• IT Systems Risk Management

The Bank defines IT systems risk as the risk of losses arising from computer system crashes, errors, system defects, improper computer use, or improper operation of system development projects.

In order to manage this risk, the Bank has introduced the "IT Systems Risk Management Standards."

Specifically, IT Systems risk RCSA is conducted based on industry-standard criteria such as the safety standard established by the Center for Financial Industry Information Systems (FISC). Based on the result of the RCSA exercise, the Bank develops an annual IT Systems Risk Management Plan, and works on risk mitigation and enhancement of risk management framework. At the same time, information of IT system failure and loss amount are accumulated, analyzed and reported to the IT systems committee and The Operational Risk Management Committee on a regular basis.

In addition to our mission of providing stable and reliable financial services as an integral part of the social infrastructure, the Bank has taken steps to further strengthen internal controls and the framework of IT systems risk management, in light of growing societal demands for more stringent information security management.

• Legal Risk Management

The Bank defines legal risk as the risk of incurring losses or facing problems related to a transaction due to violation of the law, or entering into inappropriate contracts in the course of management decisions or execution of individual business operations.

In order to manage the risk, the Bank established the "Legal Risk Management Standards."

As the Bank strives toward the refinement of the cooperative financial system, offers new financial services, and engages in investment activities in addition to providing traditional financial services, the Bank considers legal risk management to be a key management issue for all of its offices, and works to upgrade its ability to manage those risks.

• Business Continuity Risk Management

The Bank defines business continuity risk as the risk of being incapable of continuing critical businesses in an emergency such as: massive natural disaster, major systems failure and so on, due to lack of careful prior preparations and recovery plans.

To mitigate this risk, the Bank established the "Business Continuity Policy," the "Business Continuity

Standards" and the "Emergency Headquarters Set Up and Operation Procedure".

Based on the policy and the standards, the Bank developed business continuity plans for critical businesses against scenarios such as massive earthquake, pandemic of new infectious disease etc. The Bank has been conducting drills to test the effectiveness of the plans on a regular basis.

Facing a threat of the new H1N1 influenza virus in 2009, the Bank responded the threat appropriately by establishing the emergency headquarters and promptly prepared the BCP not only for less virulent influenza but also for virulent influenza.

Risk Management in Group Companies

The associated companies in the Norinchukin Bank Group are managed in accordance with the Bank's Management and Operation Policy for Group Companies. Each of these companies should prepare a feasible and effective risk management policy and framework, taking into account the Bank's Risk Management Policies as well as the nature of its own business activities and risk profile. The Bank and each Group company then confer and decide on a risk management system for the company in question, taking into consideration the characteristics of the risks the company bears.

At the sections responsible for supervision of all group companies, to ensure adequate risk management and compliance throughout the Group, those sections work together with relevant sections as and when necessary, and categorize group companies according to risk profiles and other characteristics. For each category of Group companies, the required risk management frameworks and controls are specified by the Bank in its policies. Risk management of Group companies is performed based on those policies. When deemed necessary, meetings between the Bank and its group companies are arranged and represented by the top management levels or operational levels. With regard to the risk management framework of Group companies and their administrative operations, the Bank's Internal Audit Division oversees and conducts audits in accordance with Internal Audit Policy and relevant policies and procedures.

In addition, the Bank performs economic capital management on a consolidated basis and ensures that it maintains its economic capital within the allocated capital by understanding and measuring the risks the Bank bears on an exhaustive basis including the risk of consolidated subsidiaries. Among consolidated entities, Norinchukin Trust & Banking Co., Ltd. and Kyodo Housing Loan Co., Ltd. manage market risk, credit risk, liquidity risk, and operational risk. Other consolidated entities manage operational risk.

Through the various initiatives described above, the Bank aims to refine the risk management framework of the Bank Group on a group basis.